

CITY OF BAXTER, IOWA

Independent Auditors' Report
Basic Financial Statements and
Supplemental Information and Findings

June 30, 2012

City of Baxter, Iowa
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Stephen C. Smith	Mayor	January, 2014
Bryan DeJong	Mayor Pro Tem	January, 2014
Todd England	Council Member	January, 2016
Larry Hesson	Council Member	January, 2016
Kelly Milligan	Council Member	January, 2014
Eric Nation	Council Member	January, 2014
Peg Kimberley	City Clerk/Treasurer	Indefinite
John Billingsley	City Attorney	Indefinite

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditors' Report	2-3
Management's Discussion and Analysis	4-10
Basic Financial Statements	
	<u>Exhibit</u>
Government-wide Financial Statement Statement of Activities and Net Assets – Cash Basis	A 11-12
Governmental Fund Financial Statement Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 13-14
Proprietary Fund Financial Statement Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 15
Notes to Financial Statements	16-22
Required Supplementary Information	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	23-24
Notes to Required Supplementary Information – Budgetary Reporting	25
Other Supplementary Information	
	<u>Schedule</u>
Schedule of Indebtedness	1 26-27
Bond and Note Maturities	2 28
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	3 29
Schedule of Expenditures of Federal Awards	4 30
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	31-32
Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	33-34
Schedule of Findings and Questioned Costs	35-37

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JAMES R. ZIRCHER, CPA
NEAL R. SMITH, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1098
JOHNSTON, IOWA 50131
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Baxter

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Baxter, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Baxter's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City were not audited from July 1, 2004 to June 30, 2008. Accordingly, we were unable to satisfy ourselves as to the distribution of the total fund balance at July 1, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2011, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund of the City of Baxter as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we are including herein our report on our consideration of the City of Baxter's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Baxter's basic financial statements. We previously audited, in accordance with standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2011, 2010 and 2009 (which are not presented herein) and expressed qualified opinions on those financial statements which were

presented in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 4 , including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Baxter's basic financial statements. The Management's Discussion and Analysis and the Budgetary Comparison information are presented for purpose of additional analysis and are not required parts of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

July 2, 2013

Pollard and Company P.C.

CITY OF BAXTER

Management's Discussion and Analysis June 30, 2012

The City of Baxter provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased 56.1%, or \$352,571 from fiscal year 2011 to fiscal year 2012.

Disbursements of the City's governmental activities decreased 26% or \$198,615 in fiscal year 2012 from fiscal year 2011. Debt service increased \$223,003.

The City's total cash basis net assets increased 53%, or \$254,613 from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased \$41,928 and the assets of the business type activities increased \$212,685.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, and debt service. Property tax and grants finance most of these activities.

Business Type Activities include the waterworks, sanitary sewer system, and landfill. These activities are financed primarily by user charges. Capital projects are financed by grants and loan proceeds.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) General Fund, 2) Special Revenue Funds (Road Use, Local Option Sales Tax, Employee Benefits, and Urban Renewal Tax Increment), 3) Debt Service Fund, and 4) Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides.

Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds which are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and landfill funds, considered to be major funds of the City. The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for government activities increased \$41,928 from a year ago. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

Receipts	Year ended June 30	
	2011	2012
Program Receipts:		
Charges for service	548	5,951
Operating grants, contributions, restricted interest	117,580	115,312
General Receipts:		
Property tax	199,110	93,209
Tax Increment Financing	103,642	628,722
Local option sales tax	79,673	80,833
Unrestricted interest on investments	9,323	8,003
Bond proceeds	101,000	35,306
Other general receipts	18,089	14,150
Total Receipts	628,965	981,536
Disbursements:		
Public safety	165,338	197,962
Public works	176,760	84,443
Culture and recreation	44,880	48,199
Community and economic development	66,744	99,510
General government	61,562	60,782
Debt service	225,709	448,712
Total Disbursements	740,993	939,608
Change in cash basis net assets before transfers	(112,028)	41,928
Transfers net	(52,565)	0
Change in cash basis net assets	(164,593)	41,928
Cash basis net assets beginning of year	393,879	229,286
Cash basis net assets end of year	229,286	271,214

The City's total receipts for governmental activities increased 56.1%, or \$352,571. The total cost of all programs and services increased approximately \$198,615, or 26.8%. The significant increase in receipts was primarily the result of proceeds received from tax increment financing taxes. The significant increase in disbursements was a result of debt service payments.

The City decreased general property tax rates for the fiscal year 2012. This decrease was \$105,901.

Changes in Cash Basis Net Assets of Business Type Activities

Receipts	Year ended June 30	
	2011	2012
Program Receipts		
Charges for services	528,827	533,138
Capital grants, contributions, restricted interest	509,417	141,265
General Receipts		
Unrestricted interest on investments	618	0
Bond proceeds	2,982,630	1,148,698
Total Receipts	4,021,492	1,823,101
Disbursements		
Debt service	144,850	228,931
Business type activities	309,529	302,650
Capital Projects	3,564,058	1,078,835
Total Disbursements	4,018,437	1,610,416
Change in cash basis net assets before transfers	3,055	212,685
Transfers net	60,385	0
Change in cash basis net assets	63,440	212,685
Cash basis net assets beginning of year	180,997	244,437
Cash basis net assets end of year	244,437	457,122

Total business type activities receipts for the fiscal year were \$1,823,101 compared to \$4,021,492 last year. This significant decrease was due primarily to the reduction in sewer construction bond proceeds and capital grants. Total disbursements for the fiscal year decreased 60% to \$1,610,416 due primarily to capital project costs.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Baxter completed the year, its governmental funds reported a combined fund balance of \$271,214, an increase of \$41,928. The following are major reasons for the changes in fund balances of the major funds from the prior year.

General Fund – The General Fund cash balance decreased \$65,822. The primary reason was a decrease in property tax revenues.

The Special Revenue, Urban Renewal Tax Increment Fund was established to account for urban renewal projects within the City's business district. During the fiscal year the current taxes were used to pay \$374,932 and \$98,855 of project costs of debt service.

INDIVIDUAL MAJOR PROPRIETARY FUND ANALYSIS

The Sewer Fund cash balance increased \$203,624 due primarily to an increase in rates in anticipation of future debt service resulting from the sewer project and bond proceeds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once in May 2012. This amendment covered additional disbursements in Culture/Rec with unbudgeted electrical repairs at Geise Park and tree removal at Restland Cemetery. General Government saw an additional Single Audit for uncompleted infrastructure projects along with the purchase of tables/chairs for the Community Building. Monies for the tables/chairs were received during the 2010/11 fiscal year. Additional expenditures in uncompleted Capital Projects. Water and Wastewater saw additional expenditures in maintenance and repairs. Additional revenues in the General Fund include an increase in estimated LOST taxes, Road Use Tax, Capital Project revenues on uncompleted projects and trade-in funds for the previous police car. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

As of June 30, 2012, the City had approximately \$5,859,381 in bond and other long-term debt compared to \$5,263,286 last year, as shown below.

Outstanding Debt at Year-End

	June 30, 2011	2012
General Obligation Bonds & Notes	1,179,211	1,215,785
TIF Revenues Bonds	355,324	59,216
Revenue Bonds	3,728,751	4,584,380
Total	\$5,263,286	\$5,859,381

Debt increased as a result of issuing bonds for the sewer construction project.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and TIF debt is below its constitutional debt limit of \$2,116,252.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Baxter's elected and appointed officials considered many factors when setting the fiscal year 2013/14 budget, tax rates, and fees. At the time of budget preparation the City had completed the Wastewater Lagoon Construction Project which had experienced delays and additional expenses due to slope movement of a primary cell wall caused by wet subsoil conditions. Legal counsel was retained by the City during the corrective process and the City was involved in legal mediation with both the actual project contractor and the geotechnical subcontractor regarding the additional expenditures involved. Two additional supplemental SRF loans were financed through Iowa Finance Authority to cover additional costs involved. These factors were taken into account when adopting the budget for the fiscal year 2013/14. Budgeted receipts are estimated at \$1,369,176 with budgeted disbursements estimated at \$1,369,744. City investments, time certificates and savings accounts must also be taken into consideration in this overall picture.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by \$568.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Peg Kimberley, City Clerk, 203 S. Main Street, Baxter, Iowa.

City of Baxter, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2012

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 197,962	\$ 3,520	\$	\$
Public works	84,443		104,431	
Culture and recreation	48,199		10,881	
Community and economic development	99,510			
General government	60,782	2,431		
Debt service	448,712			
Total governmental activities	939,608	5,951	115,312	
Business type activities				
Water	183,140	186,772		
Sewer	1,341,360	260,021		141,265
Landfill	85,916	86,345		
Total business type activities	1,610,416	533,138		141,265
Total Primary Government	\$ 2,550,024	\$ 539,089	\$ 115,312	\$ 141,265
Component Unit				
Baxter Economic Development Corporation	\$ 40,791	\$ 18,321	\$ 117,412	
General Receipts				
Property tax levied for				
General purposes				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash basis net assets				
Restricted:				
Nonexpendable: Cemetery perpetual care				
Expendable:				
Streets				
Capital Projects				
Other purposes				
Unrestricted				
Total cash basis net assets				

There were no reconciling items between the Governmental and Proprietary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

Net(Disbursements) Receipts and Changes
in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total	Discretely Presented Component Unit
\$ (194,442)	\$	(194,442)	
19,988		19,988	
(37,318)		(37,318)	
(99,510)		(99,510)	
(58,351)		(58,351)	
(448,712)		(448,712)	
(818,345)		(818,345)	
	3,632	3,632	
	(940,074)	(940,074)	
	429	429	
	(936,013)	(936,013)	
\$ (818,345)	(936,013)	(1,754,358)	
			94,942
93,209		93,209	
628,722		628,722	
80,883		80,883	
8,003		8,003	
35,306	1,148,698	1,184,004	
14,150		14,150	
860,273	1,148,698	2,008,971	
41,928	212,685	254,613	94,942
229,286	244,437	473,723	850,412
\$ 271,214	457,122	\$ 728,336	\$ 945,354
\$ 51,998	\$	\$ 51,998	\$
56,369		56,369	
162,104	71,645	233,749	
	32,465	32,465	945,354
743	353,012	353,755	
\$ 271,214	\$ 457,122	\$ 728,336	\$ 945,354

City of Baxter, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2012

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Employee Benefits
Receipts				
Property Taxes	\$ 57,530	\$	\$	\$ 35,679
Tax Increment Financing Collections				
Other City Taxes			80,883	
Licenses and Permits	5,951			
Use of Money and Property	8,003			
Intergovernmental	10,881	104,431		
Miscellaneous	12,550	800		
Total Receipts	94,915	105,231	80,883	35,679
Disbursements				
Operating				
Public Safety	175,666			22,296
Public Works		77,090		7,353
Health and Social Services				
Culture and Recreation	45,955			2,244
Community and Economic Development	655			
General Government	54,650			6,132
Debt Service		2,723		
Total Disbursements	276,926	79,813		38,025
Excess (deficiency) of receipts over (under) disbursements	(182,011)	25,418	80,883	(2,346)
Other financing sources (uses)				
Bond Proceeds	35,306			
Operating transfers in	80,883			
Operating transfers out			(80,883)	
Total other financing sources (uses)	116,189		(80,883)	
Net change in cash balances	(65,822)	25,418		(2,346)
Cash balance - beginning of year	86,107	30,951		(2,669)
Cash balance - end of year	\$ 20,285	\$ 56,369	\$	\$ (5,015)
Cash basis fund balances (Deficit)				
Nonspendable- Cemetery perpetual care	\$	\$	\$	\$
Restricted for:				
Streets		56,369		
Other purposes				
Unassigned	20,285			(5,015)
Total cash basis fund balances	\$ 20,285	\$ 56,369	\$	\$ (5,015)

The accompanying notes to financial statements are an integral part of this statement.

Special Revenue					
Urban Renewal					
Urban Renewal	Tax Increment -				
Tax Increment	L.M.I	Debt Service	Cemetery	Total	
\$	\$	\$	\$	\$	93,209
628,722					628,722
					80,883
					5,951
					8,003
					115,312
			800		14,150
628,722			800		946,230
					197,962
					84,443
					48,199
98,855					99,510
					60,782
374,932		71,057			448,712
473,787		71,057			939,608
154,935		(71,057)	800		6,622
					35,306
		71,057			151,940
(71,057)					(151,940)
(71,057)		71,057			35,306
83,878			800		41,928
	78,226	(14,527)	51,198		229,286
\$ 83,878	\$ 78,226	\$ (14,527)	\$ 51,998	\$	271,214
\$	\$	\$	\$	51,998	\$ 51,998
					56,369
83,878	78,226				162,104
		(14,527)			743
\$ 83,878	\$ 78,226	\$ (14,527)	\$ 51,998	\$	271,214

City of Baxter, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2012

	Water	Sewer	Landfill	Total
Operating receipts				
Charges for service	\$ 186,772	\$ 260,021	\$ 86,345	\$ 533,138
Operating disbursements				
Business-type activities	125,845	90,889	85,916	302,650
Excess of operating receipts over operating disbursements	60,927	169,132	429	230,488
Non-operating receipts (disbursements)				
Intergovernmental		141,265		141,265
Bond Proceeds	5,000	1,143,698		1,148,698
Capital Projects	(6,782)	(1,072,053)		(1,078,835)
Debt service	(50,513)	(178,418)		(228,931)
Total non-operating receipts (disbursements)	(52,295)	34,492		(17,803)
Excess of receipts over operating disbursements	8,632	203,624	429	212,685
Cash balances - beginning of year	110,213	69,195	65,029	244,437
Cash balances - end of year	\$ 118,845	\$ 272,819	\$ 65,458	\$ 457,122
Cash basis fund balances				
Assigned for landfill closure costs	\$	\$	\$ 65,458	\$ 65,458
Restricted for other purposes	32,465			32,465
Restricted for capital projects		71,645		71,645
Unrestricted	86,380	201,174		287,554
Total cash basis fund balances	\$ 118,845	\$ 272,819	\$ 65,458	\$ 457,122

See notes to financial statements

City of Baxter, Iowa
Notes To Financial Statements
June 30, 2012

1/ Summary of Significant Accounting Policies

The City of Baxter is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1894 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Baxter has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

The Baxter Economic Development Corporation is a not-for-profit corporation organized for the purpose of performing specific economic development activities within the City of Baxter. The Baxter Economic Development Corporation has a fiscal year end that is different from that of the primary government. The financial information reported in the Statement of Activities and Net Assets – Cash Basis reflects the unaudited revenue and expenses for the year ended December 31, 2011.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the City's citizenry, but do not meet the criteria for a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: The Jasper County Library Board, Jasper County E911 Board, Jasper County Disaster Services, and Jasper County Animal Rescue League.

The City joined with the West Malaka Benefited Fire District to finance the operations for fire suppression and emergency response for all rural property within the benefited fire district. The City and District share in the cost of operating a fire department based upon a running five year average based on total taxable property valuations, annual total of fire and rescue calls, and homestead tax credits within the area. The agreement covers the fiscal year ending June 30, 2012 and is renewed on an annual basis. During the year ended June 30, 2012, the City paid \$28,039 to the District.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net Assets are reported in three categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those which are clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

Local Option Sales Tax is used to account for the one cent local option tax.

The Employee Benefits Fund is used to account for the tax levy and the disbursement for the benefits.

Urban Renewal Tax Increment Fund is used to account for the tax increment financing collections and the repayment of tax increment financing indebtedness and the payment of other expenses relating to the Tax Increment Financing District

Urban Renewal Tax Increment – LMI Fund is used to account for the tax increment financing collections and payment of expenses related to the City's Low to Moderate Income housing program.

Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

Cemetery Perpetual Care is utilized to account for the cemetery fee which is held in trust for the perpetual maintenance of internment spaces in the cemetery.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system and its capital improvements disbursements and financing sources.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and the storm water and sanitary sewer system and its capital improvements disbursements and financing sources.

The Landfill Fund accounts for the operation of the City's solid waste disposal system.

C. Measurement Focus and Basis of Accounting

The City of Baxter maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operation of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then less restrictive classifications- committed, assigned and the unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a propriety fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budget and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2/ Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Interest Rate Risk – the City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but maturities shall be consistent with the needs and use of the City.

3/ Bonds and Notes Payable

Annual debt service requirements for general obligation notes, and revenue bonds and notes are as follows:

Year Ending	General Obligation Bonds		Tax Increment Financing Revenue Bonds		Revenue Bonds		Total		
	June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013		49,500	29,183	50,108	4,920	141,492	93,713	241,100	127,816
2014		51,500	27,641	9,108		145,417	89,698	206,025	117,339
2015		52,785	26,040			150,388	82,076	203,173	108,116
2016		47,000	24,390			156,407	80,028	203,407	104,418
2017		48,000	22,980			161,477	74,908	209,477	97,888
2018-2022		266,000	92,220			884,655	291,474	1,150,655	383,694
2023-2027		312,000	49,680			876,000	152,100	1,188,000	201,780
2028-2031		135,000	6,330			485,000	35,850	620,000	42,180
Total	\$	961,785	\$ 278,464	\$ 59,216	\$ 4,920	\$ 3,000,836	\$ 899,847	\$ 4,021,837	\$ 1,183,231

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$500,000 and \$272,000 in water revenue bonds issued in September 1982 and February 2010, respectively. Proceeds from the bonds provided financing for the water system construction and improvement. The bonds are payable solely from water customer net receipts and are payable through 2030. Annual principal and interest payments on the bonds are expected to require less than 90 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$614,864. For the current year, principal and interest paid and customer net receipts were \$50,513 and \$60,927, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,905,000 in sewer revenue bonds issued in March 2007, January 2008 and February 2010. Proceeds from the bonds provided financing for the sewer treatment plant construction and improvement. The bonds are payable solely from sewer customer net receipts and are payable through 2031. Annual principal and interest payments on the bonds are expected to require less than 90 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$3,285,819. For the current year, principal and interest paid and customer net receipts were \$178,418 and \$169,132 respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- The bonds will only be redeemed from the future earnings of each enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- Water and sewer user rates shall be established and charged to customers at least sufficient to pay the expenses of operation and maintenance of each enterprise and to have a balance of net revenues equal to at least 110% of the principal and interest on the bonds falling due in the same year. During the year the City did not meet this test for sewer rates due principally to the delay in determining debt service and new sewer rates required upon completion of the sewer improvement project.

In February 2010, the City also issued \$68,000 in forgivable Water Revenue Bonds to improve the water system. On June 4, 2013, these bonds were forgiven.

Sewer Revenue Bonds 2010A for \$1,702,000 and 2010B for \$1,123,000 were issued in February, 2010 to improve the sewer system. Through June 30, 2012, the entire proceeds from the bonds had not been received because the projects were not complete. The \$1,123,000 Sewer Revenue Bonds will be forgivable when the project is completed.

In May 2012, Sewer Revenue Bonds totaling \$455,000 were issued to finance the additional construction costs required to bring the project into compliance. Through June 30, 2012, the entire proceeds from the bonds had not been received. The annual debt service requirements will not be determined until the project and associated legal issues are completed.

Urban Renewal Tax Increment Financing Revenue Bonds

The City issued \$874,648 of urban renewal tax increment financing (TIF) revenue bonds for the purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The bonds are payable solely from TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Funds in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. As permitted by state law, the City certified a significant amount of the TIF receipts and paid down on the bonds and other project costs.. Total principal and interest remaining on the bonds is \$ 64,136 payable through June, 2014. For the current year, principal and interest paid, and total TIF receipts were \$374,932 and \$628,722, respectively.

Storm Water Improvement Bonds

In February, 2010, the City issued general obligation bonds : 2010A for \$1,025,000 and 2010B for \$254,000 to improve the storm water system. The later bonds will be forgivable when the project is complete. Also see note 12.

Police Vehicle Purchase Note Payable

During the year ended June 30, 2012, the City purchased a police car and financed the \$35,306 purchase at a local bank with a note payable with interest at 3.75%. The payments of principal and interest, totaling \$7,253 each year, will be payable from the General Fund through July 1, 2016.

4/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$16,780 \$15,043 and \$13,345, respectively, equal to the required contributions for each year.

5/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for these earned termination payments payable to employees at June 30, 2012, primarily relating to the General Fund, is \$14,700.

This liability has been computed based on rates of pay as of June 30, 2012.

6/ Risk Management

The City of Baxter is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7/ Interfund Transfers

The detail of Interfund Transfers for the year ended June 30, 2012 is as follows. Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

Transfer from	Transfer to		
	Debt		Total
	General	Service	
Tax Increment		71,057	71,057
Local Option Sales Tax	80,883		80,883
	<u>\$ 80,883</u>	<u>\$ 71,057</u>	<u>\$ 151,940</u>

8/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities, and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

9/ Landfill Closure and Postclosure Care

The City has entered into an agreement with several other municipalities, as allowed under Code of Iowa Section 28E, to provide for economical and environmentally responsible disposal of solid waste and establish permanent environmental responsibility for the Newton Sanitary Landfill. State and federal laws and regulations require the Newton Sanitary Landfill to place a final cover on the site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. To date, 31% of the landfill has been filled and the estimated total liability for such is \$ 4,763,200, based on 2012 cost estimates. Actual costs may be higher due to inflation, technology changes, and changes in regulations.

The Code of Iowa requires the Landfill to maintain separate closure and postclosure care accounts to accumulate resources for the payment of these costs. To date \$ 730,581 has been accumulated. Since the estimated closure and foreclosure costs have not been fully funded, the Landfill is required to demonstrate financial assurance for the unfunded costs. The Landfill has adopted the local government financial test assurance mechanism and has met the requirement issued by the Iowa Department of Natural Resources. The unfunded liability will be funded over the estimated remaining life of the Landfill. In the event it is not funded appropriately, the 28E agreement makes the City of Baxter responsible for 2.11 % or approximately \$85,000 based on the June 30, 2012 information. The City's proportionate share is updated annually in accordance with the agreement.

10/ Related Party Transactions

The City had business transactions between the City and City officials totaling \$12,890 during the year ended June 30, 2012.

11/ Tax Increment Financing- LMI

The Urban Renewal Tax Increment – LMI fund contains the division of tax receipts as provided for in Chapter 403.19 of the Code of Iowa for the purpose of providing or aiding public improvements and residential development. That Chapter and Chapter 403.22 provides that the City must include assistance to low and moderate income family housing. The City has adopted and implemented an affordable housing plan. By June 30, 2011, the tax increment tax receipts for the development project were received. There were no expenditures in the year ended June 30, 2012 since the planning stage of the project future costs was not completed.

12/ Commitments and Contingencies

During the year, the City had committed to the completion of the construction of sewer and storm water improvements totaling \$527,000 which were to be financed by the remaining proceeds of \$57,006 from the bonds issued in May, 2012 and proceeds of a \$455,000 Supplemental State Revolving Fund loan issued in December, 2012.

In December 2011, the embankment on the eastern side of the wastewater treatment lagoon project did not meet the specifications and provisions of the construction contract. The City hired an independent engineer to assess the situation and recommend changes. In March 2012, Terracon recommended revising the geometry of the lagoon to enable completion of the project with acceptable factors for safety and compliance with the revised plans. Reconstruction began in the spring of 2012 and has been completed.

The City has filed a lawsuit against the construction company and the original engineering firm and is seeking damages. Discovery has just begun. As of the date of this report, the responsible parties and the final costs and financing methods have not been determined.

As explained in note 3, certain notes payable may be forgiven upon completion of the projects, the status of these forgivable notes has not been determined as of the date of this report.

13/ Deficit Fund Balances

The Employee Benefits and the Debt Service Funds had deficit balances of \$ 5,015 and \$14,527. The deficits will be eliminated by future tax receipts.

14/ Subsequent Events

The City has established Urban Renewal Areas in accordance with Chapter 403.19 of the Code of Iowa. The City may enter into an agreement with the county, school and other taxing jurisdictions, to use the increase in taxes, as a result of the incremental property tax valuation increase in the Urban Renewal Area. The taxes so collected are paid into the City's Special Revenue Fund and are expended on project costs and obligations.

In November, 2012, the City and Baxter Economic Development Corporation (BEDCO) entered into development agreements in which the City will pay the tax increment financing taxes to the entity to repay the loans BEDCO received to construct the projects. The total payments shall not exceed \$330,000 for the commercial project and \$209,000 for the residential project, plus accrued interest thereon. The obligations are not a general obligation of the City, however, the debt is subject to the constitutional debt limitation of the City.

City of Baxter, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2012

	Governmental Funds Actual	Enterprise Funds Actual	Net
Receipts			
Property Taxes	\$ 93,209	\$	\$ 93,209
Tax Increment Financing Collections	628,722		628,722
Other City Taxes	80,883		80,883
Licenses and permits	5,951		5,951
Use of money and property	8,003		8,003
Intergovernmental	115,312	141,265	256,577
Charges for Service		533,138	533,138
Miscellaneous	14,150		14,150
Total Receipts	<u>946,230</u>	<u>674,403</u>	<u>1,620,633</u>
Disbursements			
Public safety	197,962		197,962
Public works	84,443		84,443
Health and Social Services			
Culture and recreation	48,199		48,199
Community and economic development	99,510		99,510
General government	60,782		60,782
Debt service	448,712	228,931	677,643
Capital projects		1,078,835	1,078,835
Business type activities		302,650	302,650
Total Disbursements	<u>939,608</u>	<u>1,610,416</u>	<u>2,550,024</u>
Excess (deficiency) of receipts over (under) disbursements	<u>6,622</u>	<u>(936,013)</u>	<u>(929,391)</u>
Other financing sources, net	<u>35,306</u>	<u>1,148,698</u>	<u>1,184,004</u>
Excess of receipts and other financing sources over disbursements and other financing uses	<u>41,928</u>	<u>212,685</u>	<u>254,613</u>
Balance - beginning of year	229,286	244,437	473,723
Balance - end of year	<u>\$ 271,214</u>	<u>\$ 457,122</u>	<u>\$ 728,336</u>

See accompanying independent auditors' report.

Budgeted Amounts		
Original	Final	Final to Net Variance
\$ 85,790	\$ 85,790	\$ 7,419
582,899	582,899	45,823
78,881	90,540	(9,657)
2,905	2,905	3,046
9,900	9,900	(1,897)
110,610	116,087	140,490
866,946	2,250,726	(1,717,588)
38,325	41,522	(27,372)
1,776,256	3,180,369	(1,559,736)
199,646	196,170	(1,792)
107,529	100,899	16,456
780		
46,565	50,554	2,355
472,010	473,987	374,477
58,388	81,521	20,739
73,013	73,013	(604,630)
308,814	1,699,235	620,400
541,601	560,779	258,129
1,808,346	3,236,158	686,134
(32,090)	(55,789)	(873,602)
1,000	1,000	1,183,004
(31,090)	(54,789)	309,402
522,726	522,726	(49,003)
\$ 491,636	\$ 467,937	\$ 260,399

City of Baxter, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2012

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,427,812. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety and debt service functions.

City of Baxter, Iowa
Schedule of Indebtedness
For the year ended June 30, 2012

Schedule 1

	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year
General Obligation Notes and Bonds				
Storm Water Improvement Bonds 2010A	February, 2010	3.00%	1,025,000	\$ 824,211
Storm Water Improvement Bonds 2010B	February, 2010	3.00%	254,000	254,000
Water Improvement Note	December, 2010	3.00%	64,000	64,000
Vehicle Acquisition Note	September, 2010	3.75%	37,000	29,852
Totals				<u>\$ 1,172,063</u>
Urban Renewal Tax Increment				
Financing (TIF) Revenue Bonds				
Annual Appropriation Series 2005	March, 2005	4.00%	820,000	\$ 328,000
Kid-Ville, Inc.	August, 2008	0.00%	54,648	27,324
Totals				<u>\$ 355,324</u>
Revenue Bonds				
Water Project Bonds	November, 1982	5.00%	\$ 500,000	\$ 240,666
Sewer Revenue Bonds Series 2007	March, 2007	3.00%	303,000	236,000
Sewer Revenue Bonds Series 2008	January, 2008	3.00%	900,000	697,000
Water Revenue Bond 2010A	February, 2010	3.00%	272,000	257,000
Water Revenue Bond 2010B	February, 2010	3.00%	68,000	68,000
Sewer Revenue Bonds Series 2010A	February, 2010	3.00%	1,702,000	1,702,000
Sewer Revenue Bonds Series 2010B	February, 2010	3.00%	1,123,000	528,085
Sewer Revenue bonds Series 2012B	May, 2012	3.00%	455,000	
Totals				<u>\$ 3,728,751</u>

See accompanying independent auditor's report.

Schedule 1

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 155,789	\$ 41,000	\$ 939,000	\$ 27,495
		254,000	
	64,000		1,704
	7,067	22,785	1,105
<u>\$ 155,789</u>	<u>\$ 112,067</u>	<u>\$ 1,215,785</u>	<u>\$ 30,304</u>

\$	\$ 287,000	\$ 41,000	\$ 13,120
	9,108	18,216	
<u>\$</u>	<u>\$ 296,108</u>	<u>\$ 59,216</u>	<u>\$ 13,120</u>

\$	\$ 17,830	\$ 222,386	\$ 12,170
	13,000	223,000	7,080
	34,000	663,000	20,910
5,000	10,000	252,000	7,744
		68,000	
	62,000	1,640,000	41,428
589,915		1,118,000	
397,994		397,994	
<u>\$ 992,909</u>	<u>\$ 136,830</u>	<u>\$ 4,584,380</u>	<u>\$ 89,332</u>

City of Baxter, Iowa
Bond and Note Maturities
June 30, 2012

Schedule 2

Year Ending June 30,	General Obligation Notes					Urban Renewal Tax Increment (TIF) Revenue Bonds				
	Storm Water Improvement		Vehicle Acquisition		Total	Annual Appropriation Series 2005		Kid-Ville, Inc		Total
	February 17, 2010		September 21, 2010			Issued March 16, 2005		Issued August 11, 2008		
	Interest Rates (%)	Amount	Interest Rates(%)	Amount		Interest Rates (%)	Amount	Interest Rates (%)	Amount	
2013	3.00	42,000	3.75	7,500	49,500	4.00	41,000	0.00	9,108	50,108
2014	3.00	44,000	3.75	7,500	51,500			0.00	9,108	9,108
2015	3.00	45,000	3.75	7,785	52,785					
2016	3.00	47,000			47,000					
2017	3.00	48,000			48,000					
2018	3.00	50,000			50,000					
2019	3.00	51,000			51,000					
2020	3.00	53,000			53,000					
2021	3.00	55,000			55,000					
2022	3.00	57,000			57,000					
2023	3.00	59,000			59,000					
2024	3.00	60,000			60,000					
2025	3.00	62,000			62,000					
2026	3.00	64,000			64,000					
2027	3.00	67,000			67,000					
2028	3.00	69,000			69,000					
2029	3.00	66,000			66,000					
Totals		\$ 939,000		\$ 22,785	\$ 961,785		\$ 41,000		\$ 18,216	\$ 59,216

Year Ending June 30,	Revenue Bonds										Total
	Water Project Bonds		Sewer Revenue Bonds Series 2007		Sewer Revenue Bonds Series 2008		Water Revenue Bonds Series 2010 A		Sewer Revenue Bonds Series 2010 A		
	Issued November 23, 1982		Issued March 15, 2007		Issued January 29, 2008		Issued February 2, 2010		Issued February 2, 2010		
	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount	
2013	5.00	18,492	3.00	13,000	3.00	35,000	3.00	11,000	3.00	64,000	141,492
2014	5.00	19,417	3.00	13,000	3.00	36,000	3.00	11,000	3.00	66,000	145,417
2015	5.00	20,388	3.00	14,000	3.00	37,000	3.00	11,000	3.00	68,000	150,388
2016	5.00	21,407	3.00	14,000	3.00	39,000	3.00	12,000	3.00	70,000	156,407
2017	5.00	22,477	3.00	15,000	3.00	40,000	3.00	12,000	3.00	72,000	161,477
2018	5.00	23,601	3.00	15,000	3.00	41,000	3.00	12,000	3.00	75,000	166,601
2019	5.00	24,781	3.00	16,000	3.00	42,000	3.00	13,000	3.00	77,000	172,781
2020	5.00	26,020	3.00	16,000	3.00	44,000	3.00	13,000	3.00	80,000	179,020
2021	5.00	27,322	3.00	16,000	3.00	45,000	3.00	14,000	3.00	82,000	184,322
2022	5.00	18,931	3.00	17,000	3.00	47,000	3.00	14,000	3.00	85,000	181,931
2023			3.00	18,000	3.00	48,000	3.00	14,000	3.00	88,000	168,000
2024			3.00	18,000	3.00	50,000	3.00	15,000	3.00	91,000	174,000
2025			3.00	19,000	3.00	51,000	3.00	15,000	3.00	93,000	178,000
2026			3.00	19,000	3.00	53,000	3.00	16,000	3.00	97,000	185,000
2027					3.00	55,000	3.00	16,000	3.00	100,000	171,000
2028					3.00		3.00	17,000	3.00	103,000	120,000
2029							3.00	18,000	3.00	106,000	124,000
2030							3.00	18,000	3.00	110,000	128,000
2031									3.00	113,000	113,000
Totals		\$ 222,836		\$ 223,000		\$ 663,000		\$ 252,000		\$ 1,640,000	\$ 3,000,836

See accompanying independent auditors' report.

City of Baxter, Iowa
Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds
For Four Years

Schedule 3

	2012	2011	2010	2009
Receipts				
Property taxes	\$ 93,209	\$ 199,110	\$ 170,979	\$ 120,478
Tax Increment Financing Collections	628,722	103,642	140,593	235,077
Other City Taxes	80,883	79,673	76,647	84,650
Licenses and permits	5,951	5,862	2,990	2,970
Use of money and property	8,003	9,323	8,893	13,245
Intergovernmental	115,312	117,580	111,214	104,506
Miscellaneous	14,150	12,775	9,822	7,620
Total	<u>\$ 946,230</u>	<u>\$ 527,965</u>	<u>\$ 521,138</u>	<u>\$ 568,546</u>
Disbursements				
Operating				
Public safety	\$ 197,962	\$ 165,338	\$ 148,271	\$ 152,858
Public works	84,443	176,760	110,023	124,575
Health and social services			780	780
Culture and recreation	48,199	44,880	37,420	40,658
Community and economic development	99,510	66,744	194,029	191,548
General government	60,782	61,562	59,301	66,658
Debt service	448,712	225,709	10,476	12,402
Total	<u>\$ 939,608</u>	<u>\$ 740,993</u>	<u>\$ 560,300</u>	<u>\$ 589,479</u>

See accompanying independent auditors' report.

City of Baxter, Iowa
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Schedule 4

Grantor/Program	CFDA Number	Program Expenditures
Pass- Through Program From:		
U.S. Environmental Protection Agency		
Iowa Department of Natural Resources		
Capitalization Grants for Clean Water State Revolving Funds		
CF 0234 R	ARRA 66.458	\$ 584,013
CSG 0208 G	ARRA 66.468	155,789
U.S. Department of Housing and Urban Development		
Iowa Department of Economic Development		
Community Development Block Grants/ State's		
Program and Non- Entitlement Grants in Hawaii		
09 CDR 001	ARRA 14.228	77,821
09 CDR 012	ARRA 14.228	63,195
		<u>\$ 880,818</u>

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JAMES R. ZIRCHER, CPA
NEAL R. SMITH, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1098
JOHNSTON, IOWA 50131
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Baxter, Iowa as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon as dated below. Our report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Baxter's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, we identified deficiencies in internal control over financial reporting, described in Part II of the accompanying Schedule of Findings and Questioned Costs, that we considered to be a material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Baxter's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Baxter's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Baxter and other parties to whom the City may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

July 2, 2013

Pollard and Company P.C.

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JAMES R. ZIRCHER, CPA
NEAL R. SMITH, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1098
JOHNSTON, IOWA 50131
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council

Compliance

We have audited the compliance of the City of Baxter with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2012. The City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Baxter complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, we identified a deficiency in internal control over compliance, described in Part III of the accompanying Schedule of Findings and Questioned Costs that we considered to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

The City of Baxter's responses to findings in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Baxter and other parties, including and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties

July 2, 2013

Pollard and Company P.C.

CITY OF BAXTER, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

PART I- SUMMARY OF AUDITOR'S RESULTS

- a. Qualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- e. An unqualified opinion was issued on compliance with the requirements applicable to the major program.
- f. The audit did not disclose any findings which are required to be reported in accordance with Circular A-133, Section .510(a).
- g. The major program was CFDA Number 66.458 Capitalization Grants for Clean Water State Revolving Funds.
- h. The dollar threshold used to distinguish between Type A and B programs was \$ 300,000.
- i. The City did not qualify as a low-risk auditee.

PART II Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The posting of the cash receipts and disbursements to the general ledger, reconciliations and securities control and custody are all done by the same person.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials..

Response

The City will attempt to segregate duties to the extent possible to provide additional control through review of financial transactions and reports and segregation of duties.

Conclusion- Response accepted.

INSTANCES OF NON- COMPLIANCE: No matters were noted.

PART III Findings and Questioned Costs For Federal Awards

INSTANCES OF NON- COMPLIANCE : No matters were noted.

INTERNAL CONTROL DEFICIENCIES

III-A-12 Segregation of Duties Over Federal Receipts and Disbursements- The City did not segregate duties including those related to federal programs. Even though the City hired an outside project administrator, the actual receipts and disbursements were processed by the City. See items II-A-12. This was a prior year finding identified as item III-A-11.

PART IV Other Findings Related to Required Statutory Reporting

IV-A-12 Certified Budget

Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the public safety and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation

The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response

The budget will be amended in the future, if applicable.

Conclusion- Response accepted.

IV-B-12 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-12 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-12 Business Transactions

During the year ended June 20, 2012, the City purchased goods and services from the following City officials:

Stephen C. Smith	Mayor - installation of floor improvements	\$1,402
Bryan DeJong	Council Member and owner of Baxter Oil Company	\$10,048
Kelly Milligan	Council Member and owner of Keltek Incorporated	\$1,440

Recommendation

Since the payments to Baxter Oil Company are in excess of \$2,500, they may be in violation of Chapter 362.5(11) of the Code of Iowa. The City should consult legal counsel to determine the disposition of this matter.

Response

We purchase fuel and supplies from Baxter Oil Company, which is the only type of vendor within the City.

Conclusion – Response accepted.

IV-E-12 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions.

IV-F-12 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-12 Deposits and Investments

We noted no instances of noncompliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

IV-H-12 Revenue Bonds and Notes

As noted in Note 3, the City was not in compliance with the sewer revenue bond resolutions.

Recommendation

The City should periodically determine if rates are sufficient to provide net operating revenues which exceed 110% of the debt service required on the revenue bonds.

Response

The construction project to improve the sewer system and its final financing have not been completed and are awaiting the results of the mediation. See footnote 12. The rates will be reviewed when the project is finalized and the above will be considered.

Conclusion- Response accepted.

IV-I-12 Notice of Public Hearing

The City did not publish a notice of public hearing on the financing of the police vehicle as required by Chapter 384.25 of the Code of Iowa for purchases under Chapter 384.24.

Recommendation

After consultation with the City attorney, the City should publish the notice in an appropriate manner.

Response

We will publish the notice and hold the hearing in the July, 2013 Council meeting.

Conclusion- Response accepted.